

Statement of

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Mr. Chairman and members of the Panel, thank you for the opportunity to appear before you today to discuss ways to improve the A-76 competitive sourcing process. I am here today on behalf of BENS – Business Executives for National Security – a national, non-profit, non-partisan group of business leaders working to enhance our security by bringing the best practices from the business world to bear on the challenges facing our nation.

Mr. Chairman and members, let me start my remarks this morning with a brief historical anecdote. In January 1968, Prime Minister Harold Wilson announced that Britain would withdraw all her military forces “East of Suez” by the end of 1971. We need to remember that in the late 1960’s, England was still a formidable military power with significant air, naval & ground forces. What caused England to surrender her global role was trying to do too much, for too long, with too little. This should be a cautionary tale for the United States of America.

Even when asked to do too much with too little, the men and women of our military continue to do everything we ask of them magnificently. They do their jobs despite aging equipment that is more difficult and expensive to maintain with each passing year - equipment that is not being replaced at anything like an adequate pace. They do them while living and working on aging bases that are not always up to the standards they should be. They do them with broken and inefficient processes more suited to the last century and the realities of the Cold War. I know we all agree they deserve better. And that is the heart of why we are here today.

Too often, in my experience, when the discussion turns to defense reform, I hear what I believe is a false dichotomy. It is the suggestion is that either we act to preserve the jobs of federal employees or we make sure that our front-line fighting forces have everything they need to do their jobs. If that were truly the choice, I know everyone would do everything is his or her power to ensure our men and women in uniform are trained and ready to protect our great nation.

Fortunately, that isn't a choice we have to make – we can do both. We can strengthen our national defense by improving our combat capabilities, and still take care of our government employees – military and civilian. And a strong, workable A-76 process should be a centerpiece to achieving both objectives. I am here today not because I am an expert in the nuances of A-76. I am here because I believe that the objectives of the A-76 process are the same as the objectives of BENS and the same as most Americans. Being in favor of reform of A-76 is being in favor of a strong defense and strengthening the combat capability of our soldiers, sailors airmen, and Marines. Being in favor of reform of A-76 is being in favor of being a good steward of the taxpayers' money. And being in favor of reform of A-76 is being in favor of transparency in government processes so the public knows that you are acting in their best interests rather than creating rules that thwart desirable objectives. Being in favor of reform of A-76 is being in favor of fair competition that promotes growth and progress. And being in favor of A-76 means being in favor of improved quality of life for our men and women in uniform. Let me discuss each of these.

A-76 Contributes to a Strong National Defense

If our number one objective is always a strong national defense, we must be in favor of a strong, improved A-76 process. Our soldiers, sailors, airmen and Marines need – and deserve – modern, “best in the world,” equipment and support – and they need – and deserve – a high quality of life – for themselves and their families. Providing these is going to mean spending more on new equipment and technology and personnel benefits than we have been spending. We can, and undoubtedly will, debate where that money should come from. But common sense tells us that if we can get better service and save money from activities we are already doing, that's a good place to start. A-76 can help us find that money – much of it spent now on expensive and outdated processes and infrastructure – to pay for some of the new combat equipment our forces need and deliver the new technologies and processes that will improve the way they work and live.

Let me just take a moment right here to say a word about money and savings. The primary accomplishment of A-76 competitions is to provide better services and products to our military personnel. But, saving money is an important and desirable companion to that accomplishment. There are those who would try to stop the use of the A-76 competition process by saying it does not save money. That is not supported by actual experience, numerous studies, or common sense. As study after study has shown, the savings are real - we may not be able to account precisely for each dollar in savings but we do know that conducting an A-76 competition will save the government at least 20% – often much more. CNA, GAO, OMB, DoDIG and numerous others who have looked at it agree – the savings are there – the DoD accounting system is just simply not up to the task of capturing the numbers with the kind of precision we would demand in the business world – and the same kind of precision you rightfully demand of companies who contract with the government.

GAO's August 2000 examination of savings from nine recently completed competitions confirmed these observations – the savings are real and lasting. While the savings were

not precisely calculable, at just one Air Force Air Training site, the government saved nearly \$30 million over the term of the contract – over half of their original costs – by outsourcing its base operating support activities. What if they were so far off on their calculations that it was really only 30%? Or even 20%. Should we forego those savings just because we'll never know the exact amount?

A-76 Contributes to Improving Combat Capability and Quality of Life

Survey after survey shows that our men and women in uniform and the civilian workforce that supports them feel best about their jobs and their quality of life when they have the tools to do the missions we give them and when their families are happy. That means new equipment that truly is the best in the world and the kind of support in their jobs they have come to expect in their private lives. It also means good housing and medical care and good support for their families while they are deployed. All of these should be provided so that our military personnel get the best values they possibly can – and, again, A-76 should play a big role in replacing outdated and inefficient business practices with modern systems so that the savings can be reinvested in combat capability and in bringing to the Pentagon new technologies and support processes.

A-76 Contributes to Transparency of the Government's Processes

Third, I believe a strong, reformed A-76 process will increase the public's insight into the workings of their government. A broken or mismanaged process, built on nearly inscrutable rules and subject to many reversals and re-reversals only serves to sow suspicion and doubt about the fairness of all of our processes and ultimately will be extremely corrosive to the credibility of our leaders. Transparent competitions serve to reassure everyone that the government is acting in their best interests.

A-76 Improves our Stewardship of the Taxpayers' Money

In the business world, if we knew we were delivering better services and products to our constituents while saving money – we would expand and improve, not hinder or stop what was working. If we couldn't account for every dollar – we would fix the accounting systems. That is what the government needs to do, because an objective we can all agree on is that we have a sacred obligation to be good stewards of the taxpayers' money. Tax dollars are precious – they should not be wasted. And A-76 is already contributing to ensuring that they are not – even in its current state. It is providing better services and reducing costs wherever it is applied.

A-76 Promotes Open, Fair Competition

And finally, open, fair competition is an objective I believe we would all share. Being in favor of a strong A-76 process is being in favor of competition. We know that we must have this competition if our system is to remain vibrant and adaptable. In a rapidly

changing world, open competition promotes growth, confidence, and fairness. We know we will have to outsource if we are to fulfill our Defense missions – we simply cannot do what we have to as well as we should without it. If we are going to compete and outsource, we should do it out in the open using a rigorous and carefully crafted process – one the taxpayers can understand and have confidence in – that fosters competition and does not rely on the sort of back-room deal-making that so many fear is the way things are really done here in Washington.

Execution of the A-76 Process is the Problem

I believe we agree on the objectives of a strong, workable A-76 process; so the reason we are here is because we need to ensure that the execution of this process makes it possible to reach our objectives. Right now, it does not, and much of that has to do, I believe, with falling into the trap created by this false dichotomy. If the choice is always presented as “either/or,” those who perceive the system as biased against them will always seek to stymie the process.

Our failure to execute the A-76 process effectively is a disservice to the men and women at the tip of the spear, to the taxpayers who pay to keep them there, and to the men and women who labor so valiantly to serve them. We know we can do better and still take care of loyal, talented, and dedicated public servants. Outsourcing can bring new technologies to their federal jobs and new training to them – making them even more valuable. We know we can build in provisions for “soft landings” in the event the private sector should win a competition. We may need to get better at contracting and at the bidding process, and we may need provisions for better pension portability, but we know we can do it.

The competition engendered in a strong and working A-76 process will serve our young soldiers, sailors, airmen, and Marines better. They will have modernized and efficient support, better quality of life in a reinvigorated infrastructure, and new weapons technologies to ensure that they stay the best trained, equipped, and led force in the world.

Changes are needed

Do we need to make some changes to the A-76 process? Absolutely. It takes too long. It is too complex. It is implemented on a piecemeal basis. It is disruptive to morale and adversarial - pitting the government against the very contractors that we say we want as our “partners.” And it is so complicated and opaque that both sides of the competitions have come to view it as unfair.

We can talk about the specifics of how we would improve the A-76 process later, and I will, but the basic framework of the necessary changes is clear. We can start by shortening the time-line for executing an A-76 competition. No business would ever take four years to make a decision like this or they would be out of business. We need to provide for a more transparent process – especially in the cost estimating, source

selection and technical evaluation processes. We must increase the size of the work packages we compete. And we need to make sure the government employees are provided “soft-landings” in the event the private sector bidder is the winner.

Things to do right now

First, make this Commercial Activities Panel a proactive force in smart government reform. This Congressionally mandated effort offers a real opportunity to discuss at a very high level issues that cannot be dealt with in the course of the normal political dialog in Washington. Done right, and we at BENS are convinced the Comptroller General intends to ensure that it will be, this Panel’s work will be invaluable. The improvements you suggest will be essential to making the A-76 process a useful, valuable tool. Second, make it clear to the Congressional sponsors of this Panel that the TRAC Act legislation is not the way to reform the government’s processes for ensuring a viable competitive balance. Neither the Defense Department nor likely any other government agency could fulfill its missions if it were to pass.

BENS Suggestions for Changes

After these first things are done – and even before your Panel has completed its work – there are several things that BENS and many others recommend to reinvigorate the process and begin to show immediate progress. We believe these sorts of modifications should be the basis for a revised A-76 process that is effective – one that provides a better competitive balance while being quicker, cheaper, and more transparent. These modifications could be implemented through programs that:

- Increase the size of work packages. In 1998, the average size of an A-76 competition was 35 full-time equivalent positions. By raising the competition threshold from 11 (as required today) to 200, nearly 80% of the anticipated outsourcing packages would be exempt from A-76.
- Compete “whole-base” or regional work packages. In the case of the Department of Defense, the Defense Science Board recommended back in 1996 that at least two installations per military service outsource their base operations support as a pilot demonstration. To date, only the Naval Post-graduate School at Monterey, CA and Brooks AFB, TX have attempted such a program.
- Drop detailed and lengthy “performance work statements” and specifications in favor of “performance based” competitions with short, clear “statements of objectives.” Today’s functional analyses and complex “performance work statements” are time consuming, costly, and, worst of all, lock both the government and private competitors into competitions to perform broken business processes while locking out innovative solutions.
- Award contracts for “best value” and establish – and enforce - performance incentives and/or penalties for the winning bidder. Best value contracting includes an evaluation of technical competence, proven past performance, management capability, life cycle cost—not just initial price, and quality.
- Compete on a valid cost structure. Use activity-based cost models to identify the true costs – not estimates, as the government entities currently use – when using

the government competitor's bids. Make transition to the government "Most Efficient Organization" effective with execution of contract award. Today these MEOs too often remain, at best, theoretical constructs.

BENS is made up of business men and women, but we know that the Department of Defense is not a business. That does not mean, however, the Pentagon – and especially its business-like support functions – cannot be run in a more business-like way. Over the last twenty years, BENS has been privileged to work to try to bring the best lessons of the business to the Pentagon. Restoring vigor to the A-76 process that can bring all the benefits of competition and outsourcing to the Pentagon's support functions is critical to having a strong, effective, affordable defense.

Management Challenges for the Pentagon

Comptroller General David Walker said it well in his report in January of this year. Our military forces are the best in the world but "the same level of excellence is not evident in many of the business processes that are critical to achieving the Department's mission in a reasonably economical, efficient, and effective manner."

The report outlined several management challenges facing the Defense Department. They range from reform of outdated acquisition and contracting processes, to management of finances and information technology, to how the Department will maintain access to the human and intellectual resources it needs to ensure our fighting forces remain the best in the world.

These were the same challenges America's business community faced during its "competitiveness" crisis of the 70s and 80s. Companies had to find the best way to allocate limited resources in order to stay competitive and profitable in an ever more demanding and rapidly changing marketplace. Increasingly, business has learned that it does best when it focuses on what it knows best – its *core* business – while partnering with others whose expertise is providing world-class support functions.

Resource Allocation

This resource allocation problem is the same one our Defense Department faces today. In the last 15 years, as our fighting forces have been drawn down over 40%, we have seen a continual shift in the balance of Defense spending from fighting forces – "tooth" – to support functions – "tail." Today, only 3 out of every 10 Defense dollars go to funding the weapons, training and people providing the combat capability we rely on to fight and win America's wars – DoD's core business. Support functions eat up 70% of today's defense budget. No community would put up with having 7 out of every ten police officers sitting behind desks with only 3 out on the beat. And no business could survive with 70% of its spending dedicated to overhead.

Tooth-to-Tail Imbalances

It was this dramatic imbalance that led to the charter of the BENS Tail-to-Tooth Commission – and it was this unacceptable turnabout of spending priorities that caused the commission to reverse the importance of the usual “tooth-to-tail” formulation in its name. The Tail-to-Tooth Commission – comprised of chief executive officers of leading companies, former Defense Secretaries Frank Carlucci and Bill Perry, and a group of senior military advisors – was a three-year effort to promote business models to help the Defense Department cut overhead, buy smarter, and budget better. It was designed to identify ways to fix the glaring cavities that were rotting the “teeth” of the Defense Department.

Recommendations for Reform

The Commission knew that by adopting successful business models the Department of Defense could pare billions of dollars from support “tail” that could be reinvested in combat “tooth.” The Tail-to-Tooth Commission’s *Call to Action*, released in February of this year, provides specific steps for implementing eleven reforms aimed at doing just that.

The eleven initiatives the Commission recommends are not new ideas. In fact, the Commission found that most of them had been recommended repeatedly for many years. It is as true today as it was nearly 15 years ago when former Deputy Secretary of Defense David Packard said that “We all know what needs to be done. The question is why we aren’t doing it.”

Private Sector Experience with Outsourcing

Many of the Commission’s reforms are aimed at creating the kinds of partnerships with providers of world-class support that business has come to rely on. Creation of these partnerships is often referred to as “outsourcing.” According to the Outsourcing Institute, expenditures on outsourcing in the US in 2000 grew to over \$340 billion and the private sector has recorded nearly 15% annual growth in its outsourcing budgets in the past 5 years. This year, FORTUNE 500 companies will spend nearly 25 percent of their budgets on outsourced support.

The private sector is overwhelmingly demonstrating the benefits of outsourcing every day. It has helped them improve productivity and obtain a level of service they couldn’t maintain with their own internal operations – usually while reducing costs significantly.

DoD Backing Away From Outsourcing?

So, why is the government backing away from outsourcing? And why is it that “A-76” has taken a back seat only to “BRAC” in terms of ability to instill fear and trepidation in the federal workforce and their communities and Congressional representatives? It is true that the federal government and DoD, in particular, have outsourced some functions over

the last decade or so. Still, if the A-76 Competitive Sourcing process is the government's way to achieve outsourcing of commercial functions it currently performs; and if it is true, as we believe and as study after study has shown, that A-76 competitions save 20% even when the function is retained "in-house" and 30-plus% when the private sector bidder takes over the function, why are the numbers of A-76 competitions falling so fast?

The false dichotomy – jobs for constituents vs. equipment and training for the troops – is at the heart of the fear and resistance A-76 engenders. The A-76 process has come to be seen as only a money-saving enterprise – with every dollar saved equaling a reduction in government payroll. In other words, there is a perception that federal jobs are being sacrificed solely to meet a "budget bogey" or "wedge." This is not true – it is not the case that outsourcing is used that way in the private sector and, I hope, it is not true in the government, either. Still, one might not have guessed it from the way the A-76 process has been pursued and the explanations of the Department's objectives that have been proffered.

The A-76 Program to date

In 1997, the Defense Department set a goal of studying 233,000 commercial activity positions by fiscal year 2003 – with a target of saving nearly \$12 billion between 1997 and 2005. Money that could be reinvested in modernization and warfighting readiness. Today the Pentagon estimates it will compete nearly 50,000 fewer positions than originally planned – with projected numbers dropping off sharply in each of the next several years.

These decreases are even more difficult to understand if placed in the context of the positions that are, or should be, eligible for competition. By Office of Management and Budget estimates, the Defense Department employs about one million civilian and military personnel in commercial activities. Even the Pentagon's latest inventory of commercial activities conducted under the Federal Activities Inventory Reform (FAIR) Act of 1998 identifies nearly 500,000 civilian commercial positions, although, for various reasons, it identifies only 260,000 of these as "eligible" for competition.

Recognizing the need for competition and the weaknesses in the system

What is it about the A-76 process, or about outsourcing in general, that has caused this slowdown? The Tail-to-Tooth Commission recognized both the need for competition and increased reliance on the private sector and the difficulties the Department was experiencing in executing the A-76 process. In addition to initiatives aimed at making the private sector the preferred provider of some for some support functions traditionally performed by government – such as family housing, utilities infrastructure maintenance, and many logistics functions – the Commission recommends reform of the A-76 process and pursuit of alternative approaches to achieving the benefits A-76 can provide.

In my estimation, the slowdown in A-76 competitions in the Defense Department stems from four things.

- Removal of the “forcing function” that was the driving force motivating greater reliance on A-76.
- The way DoD’s move to Strategic Sourcing as an alternative approach to A-76 has been implemented.
- The problems with the A-76 process itself.
- The simple but powerful truth that implementing change is always difficult. And the way A-76 has been implemented has served to color the entire process.

Let me address the first three in detail:

The Forcing Function – Does it still exist at DoD?

In the private sector, the motivation behind much of the move to outsourcing has been pure and simple—survival. Businesses have simply figured out that they need to do what they do best and buy what they don’t do well from others. Savings and efficiencies accrue directly to the bottom line – and stockholders and employees can all prosper.

In government, the motivation is usually the top line and there are two effects worth noting here. First, the Pentagon budget’s top line was decreasing. Combined with the costs of meeting still large operational demands on a down-sized operating force and of maintaining both an aging fleet of planes, ships, and tanks and a support infrastructure that had not been down-sized commensurate with the operational force, the Pentagon had no choice but to pursue savings in every way possible.

Now there is a perception that that pressure has been removed. Recent increases in the Department’s top line and anticipated increases, much discussed by both sides during the recent Presidential campaign, are reducing the force of the old forcing function.

And second, government employees know that savings they achieve too often reduce their future budgets. There is no tangible incentive for them to pursue economies. In fact, the difficulty in making real change provides ample incentives not to act.

Strategic Sourcing – Helping or Hurting Defense Reform?

Another way the push to change has diminished is the way that Strategic Sourcing – the Pentagon’s new approach to reengineering its organizations and functions – is being implemented.

First, it should be stipulated that BENS and the Tail-to-Tooth Commission are strong supporters of strategic sourcing. If done correctly it will enable the Department to look at all of its functions, not just those it classifies as commercial, and all of its positions, even those classified inherently governmental or otherwise exempted from competition. We believe, as the Dawkins Panel put it, “You do not have to own something to control it.” And further, that far too many of the Department’s most commercial of activities of have been exempted from competition for what amount to specious reasons.

Done poorly, however, strategic sourcing will fail to measure up to the gains that can be demonstrated more clearly through the more easily documented, albeit more painfully gained, savings achieved through A-76 competitions. Allowing the Services and Defense Agencies to misclassify functions and positions and to take credit for past actions and reduce their future competitions to near nil is, in our minds, doing it poorly.

Problems with A-76

Which brings me to the third reason that the Services and Defense Agencies have been so reluctant to continue with A-76 – the results, however significant the aggregate savings might be, are too uncertain and are just not worth the pain to those who have to implement the competitions.

The Keys to Solution are Well Known

The chief criticisms of the A-76 process have been well-documented, but so are the ways to improve A-76. They include:

- targeting outsourcing efforts in areas where the private sector excels
- adopting a two-track process as recommended by the Professional Services Council
- Considering the use of Employee Stock Ownership Plan arrangements
- including soft-landing provisions for separating employees

Private Sector Outsourcing Candidates are a Place to Start

There are several sectors where the private sector holds a comparative advantage – either their employees have talents for which the government is unable to compete or they have developed technologies, processes, or expertise that the government cannot readily replicate. These are common problems throughout government and the Defense Science Board and others have adequately detailed the potential for savings in these areas. For comparison and by way of example, here are the areas where the Outsourcing Research Council says the private sector has chosen to spend its outsourcing dollars:

- information technology deployment,
- logistics (inventory and transportation),
- document management,
- component manufacturing (the “make/buy” decision),
- financial management,
- human resources,
- and raw materials management (commodities).

Two-Track Procedure

In addition to the BENS suggestions, the Professional Services Council (PSC) has proposed a two-track procedure that focuses on direct outsourcing when warranted by business conditions and public private competition as a recourse. The public-private

competition would, however, be subjected to new “field-leveling” competition rules, including:

- Simplified methods—agreed on up-front by government and industry—for evaluating the competition and costs
- “Soft-landing” incentives for displaced federal employees (more on this topic shortly)
- Agreed on procedures to maintain the integrity of information during the competition

Another Possibility - ESOP

Employee Stock Ownership Plans offer the prospect of securing the buy-in of affected workers by making them co-owners. Such a plan was successfully used to privatize the personnel investigations function of the Office of Personnel Management (OPM). In 1996, US Investigations Services took over all of the background investigation work for OPM offering jobs to all 700 former federal employees. The company was formed with 11 investors bringing the investment money and the employees of the then existing OPM Investigative Service Division. Today the employees are owners of 91% of the company valued at \$28.2 million.

Soft-Landing Provisions – An Essential Element

Personnel soft-landing provisions are already being used to effect smooth transitions from public to private operation. Provisions such as continuation of employability, pension and benefit carryover, immediate vesting, and maintenance of leave/vacation balances have been included in previous government contracts. Other employee “soft-landing” that should be considered include:

- Pension portability
- Employee input into the process
- Expanded use of buy-outs and early retirement packages.

So, we know the weaknesses in the current system. We know where to look for candidates for outsourcing. And we know some ways to take care of the government’s employees. What more do we need to make A-76 competition a useful tool again? How can we restore the impetus to a program that offers the very real prospect of improved service to our front-line forces and savings that can be reinvested in new and modernized equipment?

What Does It Take to Make it Work?

Fortunately, the answers to these questions are pretty clear cut – and we have touched on most of them already. The BENS Tail-to-Tooth Commission focus has been on the Department of Defense. In fact, very few of the civilian agencies have much experience in effecting A-76 competitions and DoD will continue to lead the way. While the

recommendations below are slanted toward the Pentagon, they apply equally to any organization trying to make change work for them.

Commitment and Leadership from the Top

First, the Secretary of Defense should renew the Department's commitment to the A-76 process. He must insure that the Department has clear guidance and firm expectations – and a process that can work. Working closely with the GAO Panel and with OMB directly to make the needed changes to the A-76 process and with the Service Secretaries and Chiefs to change the way it is implemented, will make for a better process. Only setting high expectations and then holding people accountable for results will make the process work.

Shine a Bright Light on Every Process

While the GAO panel is doing its work and while we await the much needed changes to the A-76 process, the Department should renew its efforts to reengineer and outsource using the tools they have in hand. The Pentagon's business processes are not world-class – they are not what our men and women in uniform deserve – and they will not stand up to the “bright light and wire-brush” scrutiny they should be given. Every process and every position need to be reexamined – there is no justification for many of the positions in the Pentagon's most commercial of entities being exempted from competition.

A Little Help From Congress – Money for Accounting Systems and Pilot Programs

The Pentagon will need, perhaps, two things from the Congress. First, money, not just to conduct A-76 competitions, although there will be a need for that, but to invest in things like activity-based costing systems that require significant up-front investment. Only with reliable cost data can the participants in these competitions have faith in the numbers that determine the outcomes. These new systems are essential to establishing the transparency of the process and the sound business footing that are needed to make this process work in the long run. The second thing the Congress can provide is permission to conduct some pilot program tests of some new and more wide-ranging competition schemes – whole base or regional, multi-function competitions on a new, streamlined basis, for example.

The Last Element – Education

The final key to making future A-76 efforts work may be the easiest one. The leadership of the Department of Defense must work to make sure their workforce has a much clearer understanding of both the goals of and the processes involved in A-76 competitions. They can, also, do a better job of advertising – both inside and out of the Pentagon – the success stories of the A-76 process. This education could go a great distance toward preparing the ground for future attempts to take root.

Summary

Strong and continual competition is what makes American industry the envy of the rest of the world. It creates new technologies, improves existing ones, and gives us new and better products at a lower price every day. This same competitive environment can serve to strengthen our national defense by bringing 21st Century business technologies and practices to the support of our fighting forces. It can enhance our combat readiness at the same time it improves the quality of life of our fighting men and women and their families. Our people deserve the best weapons we can buy and first-rate support for themselves and their families. We won't be able to provide these things unless we change the ways the Pentagon is allowed to do its business functions. A strong, reformed A-76 competitive sourcing process is vital to strong, effective defense.